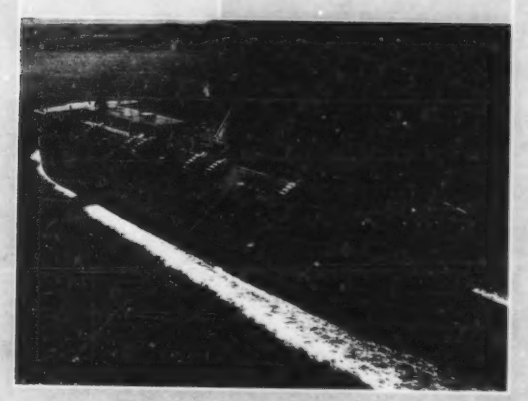
BRITISH COLUMBIA FERRY CORPORATION

2000/01 ANNUAL REPORT



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Mission

At BC Ferries we are committed to satisfying customer and community needs for a safe, reliable and sustainable ferry service.

We strive to build on our tradition of excellence in ferry service, one in which employees and citizens take great pride.

Nicola: Vancouver 1960
33.53m • 255 Gross Tons
16 Cars/129 Passengers

Hill Bay: Victoria 1986
36.58m • 174.89 Gross Tons
16 Cars/134 Passengers

Quinitsa: Vancouver 1977
74.52m • 1,107 Gross Tons
80 Cars/394 Passengers

North Island Princess: Vancouver 1958
61.04m • 841 Gross Tons
49 Cars/293 Passengers

Queen of Tsawwassen: Vancouver 1960
102.51m • 3,127 Gross Tons
138 Cars/989 Passengers

Queen of Cumberland: Vancouver 1992
96.00m • 2,885 Gross Tons
127 Cars/450 Passengers

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Queen of Nanaimo: Victoria 1964
129.97m • 4,938 Gross Tons
192 Cars/1,318 Passengers

Queen of Oak Bay: Victoria 1981
139.29m • 6,968 Gross Tons
362 Cars/1,446 Passengers

Corporate Profile

The British Columbia Ferry Corporation, a Crown corporation of the government of British Columbia, began operations on January 1, 1977. The ferry system was originally initiated by the provincial government in 1960, with regularly scheduled ferry service between the Lower Mainland and Vancouver Island provided by two vessels and 225 employees. Today, the BC Ferries fleet consists of 40 vessels operating on 25 routes with over 4,500 employees. High operational and maintenance standards make this one of the world's finest ferry systems.

BC Ferries is an integral part of British Columbia's coastal transportation system, linking Vancouver Island to the mainland of Canada and many isolated coastal communities to either Vancouver Island or the mainland. The corporation also provides service from Prince Rupert, on the province's north coast, to the Queen Charlotte Islands (Haida Gwaii), and to Port Hardy on the northern end of Vancouver Island. In addition, the Discovery Coast Passage offers summer service between Port Hardy and Bella Coola on the central coast, with additional ports of call en route.

During the 2000/01 fiscal year, BC Ferries carried 21.4 million passengers and 7.9 million vehicles, generating $384 million in revenue. All costs and revenues, including the statutory contribution of a portion of provincial gasoline tax revenue, are detailed in the financial statements (and the associated notes) shown elsewhere in this annual report.

BC Ferries' workforce consists of unionized and management employees. All unionized employees are members of the British Columbia Ferry and Marine Workers' Union. The permanent workforce numbers approximately 2,800, and is augmented by approximately 1,760 casual workers.

The corporation owns two fast ferries, and its subsidiary, Catamaran Ferries International, owns a third. All three vessels have been made available for sale.

Catamaran Ferries International (CFI) is a wholly owned subsidiary of the corporation that was formed for the purposes of constructing fast ferries for the corporation and developing the related technology for application in the domestic and international markets. CFI operated between April 1996 and October 2000. It remains the legal owner of PacifiCat Voyager. The financial statements of both entities are consolidated in this annual report.

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CHAIR'S

THE 2000/01 FISCAL YEAR REPRESENTED a new beginning and significant transformation for the British Columbia Ferry Corporation. The primary building blocks were put in place to ensure that this most important of Crown corporations headed in a new direction based on the imperatives of financial accountability and customer service.

The Board of Directors is pleased with the progress made by BC Ferries in a number of important areas. Under the direction of a new executive team, the corporation was successful in achieving its core strategies this year.

After a long period of deficits and insolvency, the financial statement in this annual report represents a significant turnaround for BC Ferries. The board is very pleased that after years of struggling without a provincial financial framework, the corporation will record an operating surplus of over $10 million this year. This positive financial picture can be credited to the new provincial funding framework put in place in 1999/2000 and the many cost-containment efforts made over the past year.

The development of a detailed five-year capital plan and the initiation of a long-range strategy also represent significant progress. The service provided by BC Ferries is a cornerstone of British Columbia's coastal economy, and sound long-term planning for the corporation's assets and services are of paramount importance.

The board took particular pride in advancements in customer service this year, including online reservations, White Spot menus, and a year-round flat tariff for the trucking industry. The revitalization of Queen of the North and a new contracted northern service to remote communities also contributed to BC Ferries' new direction. Putting the customer first was an important emphasis for the board, and it was heartening to see this direction being realized.

Increased emphasis on public consultation and stakeholder relations also resulted in advances. A new partnership with the Coastal Council was established, and many route-based ferry advisory committees contributed to service enhancements. A number of other specific consultation programs, such as the fleet-wide tariff review, resulted in significant improvements for both the corporation and the communities served.

It is important to recognize the human side of the corporation. Having used BC Ferries myself on many a weekend this year, I saw first-hand the excellent service provided by our front-line staff. Over the year there were numerous examples of employees going the extra mile to help BC Ferries' customers, and the board is extremely grateful for these efforts.

It has been most rewarding to be part of the team rebuilding this important coastal transportation service. I wish to extend my personal thanks to my colleagues on the board for their dedication and support during the transformation of the British Columbia Ferry Corporation.

Michael Francis
CHAIR

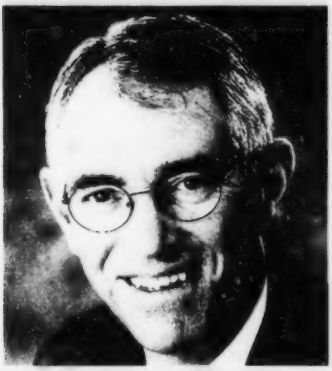
Tenaka: Victoria 1964
47.09m • 651.00 Gross Tons
30 Cars/244 Passengers

Dogwood Princess II: Victoria 1979
12.80m • 21 Gross Tons
38 Passengers

Queen of Sidney: Victoria 1960
102.51m • 3,127 Gross Tons
138 Cars/989 Passengers

Queen of Capilano: Vancouver 1991
96.00m • 2,855 Gross Tons
88 Cars/450 Passengers

PRESIDENT'S



THE 2000/01 FISCAL YEAR WAS VERY significant for the British Columbia Ferry Corporation on a number of different fronts. Under its new funding framework, the corporation began to build the foundation for long-term change.

BC Ferries' financial results represent one of the most important areas of improvement this year. This is the first annual report in BC Ferries' history that reports a positive result from its operations within a financial framework, with a small surplus of $10.7 million earned from operations. The corporation is now operating on the long-term objective of financial sustainability, largely as a result of the new funding framework and many improved internal efficiencies.

This year saw a renewed effort to invest in BC Ferries' fleet and terminal infrastructure. The corporation unveiled a comprehensive five-year capital plan and initiated a long-range plan for the next 15 years, with special attention given to capital replacement, environmental protection, human resource management and improved customer experience. The three PacifiCats were also put up for sale on the international market, thereby signalling the end of a significant chapter of the province's and the corporation's history.

BC Ferries and the British Columbia Ferry and Marine Workers' Union were successful in reaching a long-term collective agreement. The five-year agreement was a major step forward in providing security of service for BC Ferries' many customers and the coastal communities that count on its services every day.

The corporation also made a significant effort this year to begin bringing its financial and inventory systems up to contemporary standards. The new technology-based systems will equip BC Ferries with the day-to-day management information needed to improve financial performance and accountability.

BC Ferries implemented a range of initiatives in 2000/01 aimed at supporting future growth and improving safety and reliability. The refurbishment of both Queen of the North and Queen of Burnaby were completed. The $5.6 million interior upgrade of Queen of the North will expand the market for this service, thereby enhancing northern tourism. BC Ferries re-acquired Queen of Burnaby from Victoria Line Ltd., and after making the necessary interior modifications and engine room improvements, assigned her to the Comox–Powell River route.

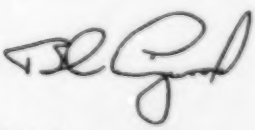
It was not just our vessels that received much-needed attention. BC Ferries began important terminal improvement programs at both Horseshoe Bay and Powell River, and completed dock upgrades at Long Harbour on Salt Spring Island and Snug Cove on Bowen Island.

BC Ferries also made additional efforts to improve environmental stewardship, in particular through vessel sewage treatment. A five-year sewage treatment program will see the installation of new treatment plants on 14 vessels and upgraded plants on 17. The new, locally manufactured Hydroxyl sewage system was installed on both Howe Sound Queen and Queen of Saanich. The discharge from this system exceeds the highest environmental standards.

Another important project undertaken this year was the initiation of a process to rationalize BC Ferries' complex tariff structure. After 10 months of extensive stakeholder consultation, the corporation implemented a new distance-based tariff regime.

The provincial government's decision to upgrade the vessel and docks of the Mill Bay–Brentwood Bay route represented a commitment of service to that run for the next decade.

I would like to thank the Board of Directors, the management team and our many employees for their support during this important year of transition for BC Ferries. I look forward to working with all concerned to continue to improve BC Ferries' financial performance and service to customers.



Bob Lingwood
President and Chief Executive Officer

Board of Directors

Michael Francis, CHAIR
Peter Dhillon, VICE-CHAIR
Patricia McKim
Russell Moore
Ron Moss
Ray Whitehead

Kwuna: Victoria 1978
71.64m • 347 Gross Tons
26 Cars/150 Passengers

Tachek: Vancouver 1969
49.86m • 751 Gross Tons
30 Cars/277 Passengers

Executive Management

Bob Lingwood
PRESIDENT AND
CHIEF EXECUTIVE OFFICER

Capt. Mike Carter
EXECUTIVE VICE-PRESIDENT,
OPERATIONS & CUSTOMER SERVICES

Rob Clarke
VICE-PRESIDENT,
FINANCE AND CORPORATE SERVICES

Derek Johnston
VICE-PRESIDENT,
HUMAN RESOURCES

David Marshall
VICE-PRESIDENT,
ENGINEERING & CONSTRUCTION

Mark Stefanson
VICE-PRESIDENT,
CORPORATE COMMUNICATIONS

Pat Morris
CORPORATE SECRETARY

Len Roueche
DIRECTOR,
STRATEGIC AND CORPORATE PLANNING

Five-Year Trends

	2001	2000	1999	1998	1997
KEY INDICATORS					
Tolls, catering and other income per passenger	$16.91	$16.66	$16.52	$16.02	$14.69
Operating and net financing expenses per passenger	$18.45	$20.62	$19.38	$17.85	$17.16
Percentage of operating and net financing expenses recovered from tolls, catering and other income	91.7%	80.8%	85.2%	89.8%	85.6%
Cash flow/debt service ratio	29.29	0.50	0.59	0.45	0.26
Return on assets	1.5%	-43.1%	-13.0%	-7.3%	-10.2%
Full-time equivalent employees (Note 2)	3,339	3,390	3,389	3,374	3,292
OPERATIONS (figures in thousands)					
Passengers carried	21,369	21,381	21,379	21,799	22,269
Passenger miles travelled	408,215	408,465	406,482	416,639	428,409
Utilization—passengers	31%	31%	30%	30%	31%
Vehicles carried	7,933	7,884	7,815	7,985	8,163
AEQs carried (Note 3)	8,709	8,668	8,579	8,779	8,910
AEQ miles travelled	156,188	155,957	154,587	159,322	162,678
Utilization—AEQs	54%	54%	52%	53%	53%
FINANCIAL (figures in $ thousands)					
Tolls, catering and other income	$361,495	$356,169	$353,222	$349,206	$327,073
Government contracts, grants and motor fuel tax	94,957	87,063	46,040	26,631	26,500
Operating and net financing expenses (Note 4)	394,297	440,955	414,417	389,046	382,055
Cash flow from operating activities	65,221	(22,925)	(7,169)	(12,383)	(19,451)
Net additions to capital assets	55,148	114,590	166,602	128,187	135,856
Total assets	699,648	693,954	875,797	806,449	749,474
Proceeds from borrowing	–	145,151	191,731	126,232	201,362
Long-term debt and capital leases, net of sinking funds	18,616	21,609	957,114	784,624	675,394
Shareholder's equity (deficiency)	571,735	570,092	(206,277)	(92,010)	(32,988)

Notes:

1. Certain comparative figures have been restated to conform with the presentation adopted for the current year.
2. Full-time equivalent employees is calculated by dividing actual labour hours worked by the standard hours in a work year (1,827).
3. An AEQ (Automobile Equivalent) is a standard-length traffic unit. Underheight and overheight vehicles are each one AEQ; buses and trucks are each three AEQs.
4. Financial information is presented on a consolidated basis (includes BC Ferries' wholly-owned subsidiary, Catamaran Ferries International Inc. [CFI]) except for operating expenses (BC Ferries only).

REPORT ON THE

Introduction

This annual report represents a departure from BC Ferries' annual reports of the past. While the fundamental financial reporting sections continue, the structure of non-financial reporting has been made more specific. The Budget Transparency and Accountability Act (BTAA) was designed to ensure that public bodies such as the British Columbia Ferry Corporation prepare forward-looking performance plans and structure their annual reports around the information provided in the performance plan.

Although the BTAA does not come into force for Crown corporations until 2001/02, this annual report endeavours to meet its requirements. BC Ferries published its first performance plan in March 2000 for the 2000/01 fiscal year, and this section of the annual report examines the corporation's performance against the projections in the performance plan. (The performance plan is available on the BC Ferries Web site, www.bcferries.com).

Operating overview

In 2000/01, BC Ferries implemented the financial framework that was announced by the government in March 2000. A detailed discussion of the corporation's financial results follows in the Management Discussion and Analysis.

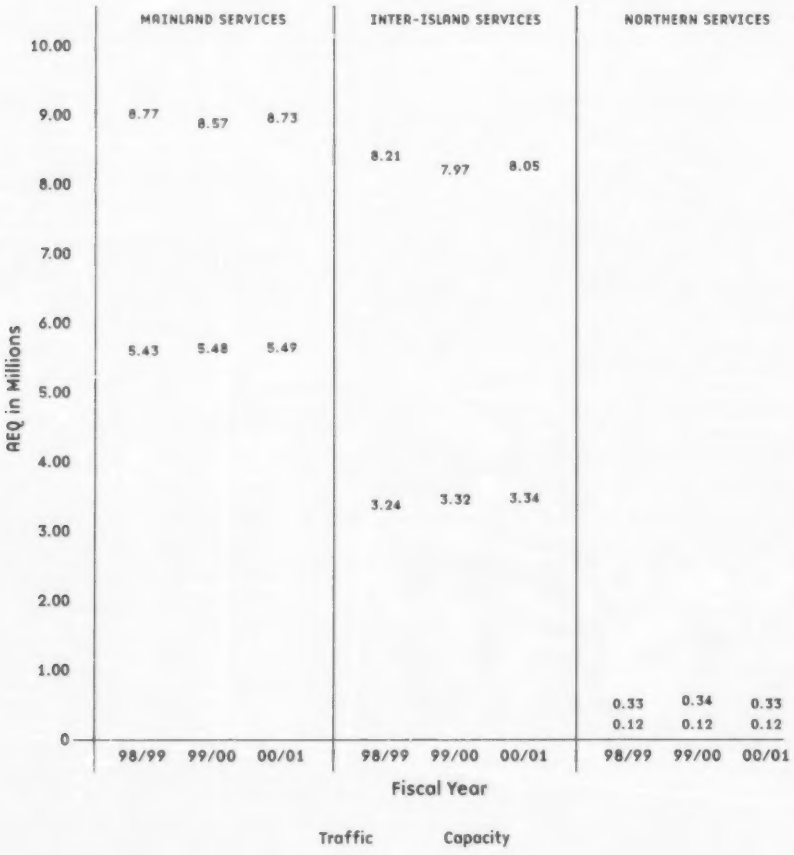
BC Ferries forecast system-wide growth in vehicle traffic of 0.6 per cent and a decline in passenger traffic of 0.2 per cent. Actual traffic change was 0.6 per cent growth in total vehicles and a 0.1 per cent decline in total passengers. In 2000/01, BC Ferries carried 21.4 million passengers and 7.9 million vehicles.

No significant changes in service were planned for 2000/01, with the following exceptions:

> Horseshoe Bay–Departure Bay—Two 362-car "C-class" vessels provided primary service on this route, augmented by one fast ferry. (The PacifiCat Explorer and PacifiCat Discovery are rotated into service in order to balance their service hours. PacifiCat Voyager has never been operated in revenue service.)

PRODUCTIVITY MEASURES

VEHICULAR TRAFFIC CARRIED/CAPACITY UTILIZATION



To measure vehicular traffic carried (defined as automobile equivalents "AEQs") and measure against vehicular carrying capacity of the operational fleet. This will provide a measure of total vehicle capacity used. Total AEQs carried is divided by AEQ carrying capacity of the operating fleet in each of the three operating segments.

– Traffic trends remain constant overall. Heaviest utilization occurred on Route 1, where discretionary sailings were reduced. On Route 2, the capacity offered increased with C-class vessels replacing the PacifiCats as primary vessels.

– Capacity utilization and vehicular traffic remained virtually constant from prior year.

– Capacity utilization and vehicular traffic remained virtually constant from prior year.

Tsawwassen–Southern Gulf Islands supplemental–The supplementary service was operated as planned, although it was not heavily used outside of peak traffic periods.

Comox–Powell River–Queen of Sidney was replaced by Queen of Burnaby, a larger vessel re-acquired in March 2000 from Victoria Line Ltd. After modifications to the vessel and the upgrading of both terminals, Queen of Burnaby entered service on the route in March 2001.

BC Ferries undertook work on more than 50 capital projects, some of which remained in progress at year end. Net additions to capital assets totalled $55 million.

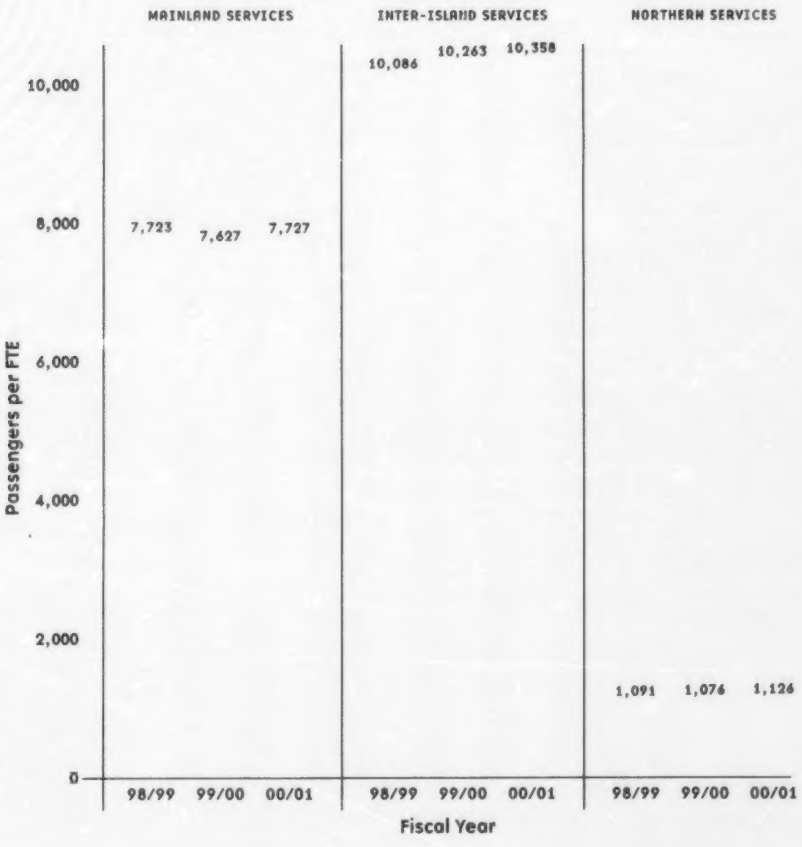
Progress has been made on the design for a new intermediate vessel, with initial work exploring several alternative designs. The corporation engaged in several rounds of public consultation with the Bowen Island community, which is the planned assignment for the new vessel. BC Ferries will take delivery of the vessel in 2002/03.

BC Ferries and the government determined in March 2000 that the car-carrying aluminum catamarans PacifiCat Explorer, PacifiCat Discovery and PacifiCat Voyager should not form part of BC Ferries' ongoing fleet operations but should instead be sold. The third fast ferry, PacifiCat Voyager, was completed in August 2000, following which the corporation's subsidiary, Catamaran Ferries International (CFI), closed its operations. In 2000/01, a sales consultant (PricewaterhouseCoopers) was retained to facilitate the sale and an extensive international marketing effort began. The vessels were still for sale at year end.

As part of its asset management process, the corporation considers the disposal of ships that are no longer suitable for the effective operation of the service. In 2000/01, Queen of Victoria, a ship originally constructed for BC Ferries in 1962, was sold to a private operator in the Dominican Republic for operation in the Caribbean. Queen of Sidney, which had been in service between Comox and Powell River, became surplus through the re-acquisition of Queen of Burnaby and was made available for sale. It remained in the corporation's ownership at year end.

PRODUCTIVITY MEASURES

PASSENGERS CARRIED PER OPERATIONS EMPLOYEE (FTE)



To measure the productive utilization of labour resources. Although not intended to measure the employees' productivity, since they have no direct control over staffing or traffic demand, this measure does indicate, to some extent, employee productivity.

This measure is calculated by dividing the passengers carried by operating FTEs for each of the three operating segments.

increased by 1.3% reflecting increased passenger numbers and reduced FTEs. Reduced FTEs are a result of management's efforts to match crew levels to anticipated traffic and improved control of discretionary sailings.

passenger counts reduced by 1.8% while FTE counts dropped 6.1% to reflect a reduced summer season on routes 10 and 40 and management's efforts to match crew levels to anticipated traffic.

reflects a change in vessels and crewing levels as a result of breakdowns and dock closures.

STRATEGIC PRIORITIES

Over the fall and winter of 2000/01, BC Ferries undertook a major strategic planning initiative to develop and project its capital and major operating activities over the next 15 years. This work was based on the financial framework, which provides for the dedication of 1.25 cents per litre from motor fuel tax revenue and a rational tariff structure. The plan considers the needs of the customer, environmental issues, the replacement of assets and the need for new assets, and the human resources required to operate the system safely and reliably. The plan also incorporates a financial plan that balances revenues and expenditures over the long term.

The draft plan will be available for consultation in 2001/02.

GOVERNANCE

The Board of Directors continued to assess its governance practices in relation to best practices in the corporate environment. BC Ferries' statement of corporate governance practices is included separately later in this annual report. The legislative framework was also reviewed during the year.

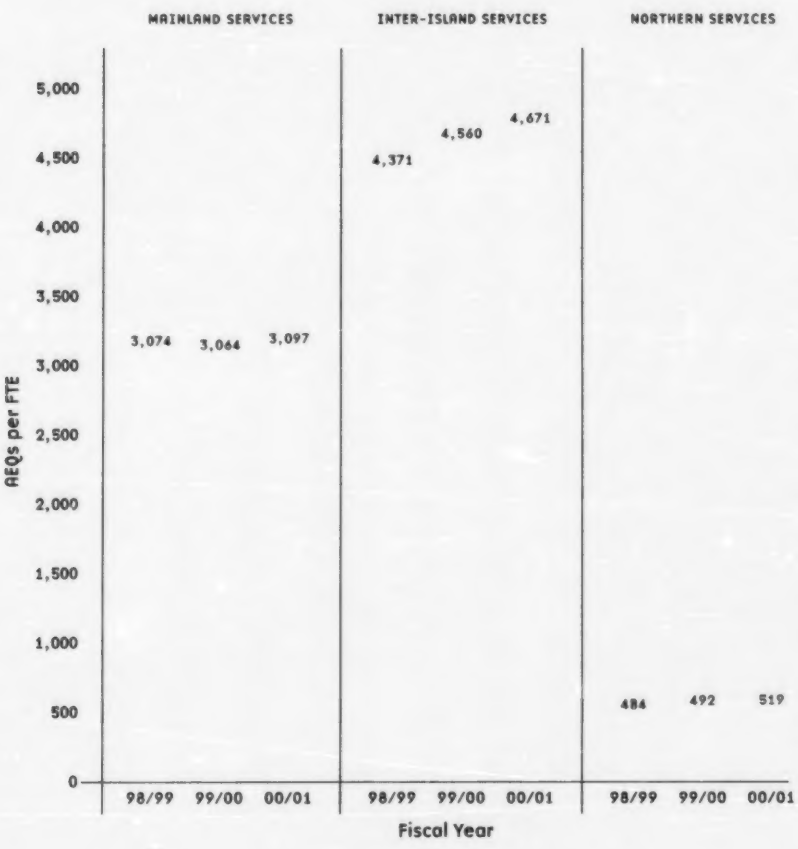
INFORMATION SYSTEMS AND BUSINESS PROCESSES

BC Ferries continues to develop its budgeting processes to ensure the effective allocation of resources for both existing needs and new initiatives. In order to support effective budgeting and financial management, the corporation put in place two major integrated systems in 2000/01 for implementation at the beginning of the 2001/02 fiscal year. The corporation also undertook a re-engineering of its supply chain management processes.

Financial systems—The crucial component in the effort to improve BC Ferries' financial management was the development of updated core financial systems software that will provide more timely and useful management information. The new system uses the Oracle platform, which is widely used in government.

PRODUCTIVITY MEASURES

VEHICLES (AEQs) CARRIED PER OPERATIONS EMPLOYEE (FTE)



To measure the productive utilization of labour resources. Although not intended to measure the employees' productivity, since they have no direct control over staffing or traffic demand, this measure does indicate, to some extent, employee productivity.

This measure is calculated by dividing the AEQs carried by operating FTEs for each of the three operating segments.

– Vehicles carried per FTE improved in all regions from prior year. Vehicle traffic increased in Mainland Services by 0.3%. Reduced FTEs are a result of management's efforts to match crew levels to anticipated traffic and improved control of discretionary sailings.

improved in vehicle traffic. FTEs reduced as a result of a change in vessels and crewing levels as a result of breakdowns and dock closures.

showed a marginal decline in vehicles carried, while FTEs dropped as a result of a reduced summer season on routes 10 and 40 and management's efforts to match crew levels to anticipated traffic.

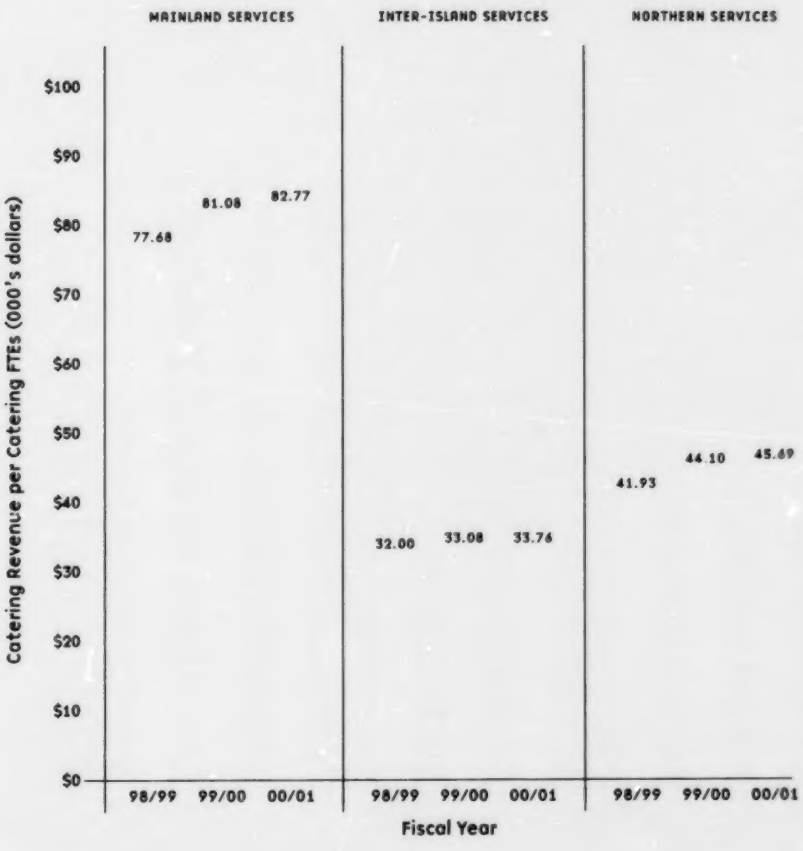
In association with the computer system changeover, the project also sought to redefine financial processes and provide better reporting capabilities, to ensure that the corporation's business practices are as cost-effective and streamlined as possible. The changeover encompasses general ledger, purchasing, accounts payable, budgeting and financial forecasting systems. Fixed assets and accounts receivable modules will be brought into use in 2001/02.

Corporate maintenance management system—Installation of the Maximo maintenance management software package developed by Project Scheduling Development Inc. will support the implementation of a common set of methods and controls for maintaining BC Ferries' physical assets, giving staff the tools, training and information they need to plan and forecast maintenance needs.

The project identified early on the need for the new maintenance management system to be proven in a marine environment and applicable to maintenance areas throughout the corporation. Compatibility and integration of the system with the new Oracle financial system would also be essential for effective maintenance processing, including the handling of work orders, requisitions and inventory, and cost-effective purchasing and reporting.

The new system supports the Vessel Planning and Accountability Framework, which assists BC Ferries with the management of its vessel refit efforts. Vessel refits can involve a combination of internal labour and contract work, and often involve drydocking of the vessel. Depending on the size of the vessel, the extent of work required, and the requirement for regulatory inspections, a refit may cost from less than $100,000 to over $1,000,000. In 2000/01, four vessel refits served as pilot projects, with the refits treated as defined projects and the principles of effective project management applied. This initiative has produced significant improvements in the way refit activities are managed, and will continue over the coming year.

PRODUCTIVITY MEASURES · CATERING REVENUE PER CATERING EMPLOYEE (FTE)



To measure the effectiveness of management in utilizing labour resources. Total catering revenue does not include tolls, parking and other miscellaneous revenue or subsidies, and excludes cost of goods sold.

Catering revenue per FTE rose in all regions, as a result of an overall strong growth in catering revenues.

– Catering revenues increased through the implementation of White Spot onboard the Spirit vessels, targeted improvements to the Spirit buffets, improved menu signage, annual fleet-wide price increase, improved gift shop merchandising and increased retail display allowances.

– Despite an overall reduction in passenger volumes, catering revenue increased through increased per passenger spend, primarily through improved gift shop merchandising.

On some routes, management's efforts to match crew levels to anticipated passenger traffic have improved productivity.

Supply chain management—Supply chain management ensures that an organization has the right goods and services in the right place, at the right time, and at the right quality, quantity and price. It will provide BC Ferries with the infrastructure and business processes it needs to ensure that inventories and the purchase of goods and services are effectively tracked and managed.

Development of a supply chain management business process was not originally contemplated at the beginning of 2000/01, but grew out of the other financial systems initiatives. The effectiveness of the new process will be maximized through integration with the Oracle financial system and the corporate maintenance management system. These systems and processes are designed to complement each other, and by integrating them, BC Ferries is providing employees with the latest technology and business practices in order to manage its resources. All three were in place by year end, but full implementation in all BC Ferries sites will occur through 2001/02.

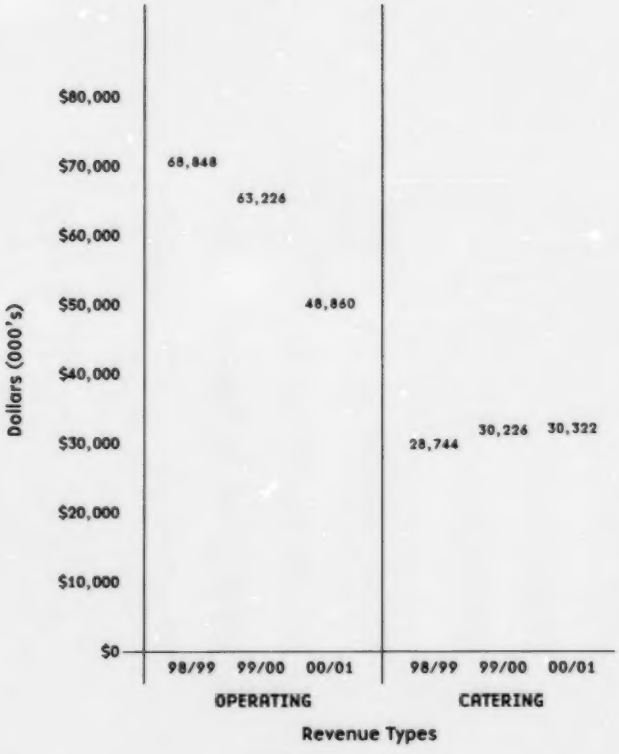
COMMODITY RISK MANAGEMENT

In co-operation with the Provincial Treasury Branch, BC Ferries developed a commodity risk management program, which will be implemented in 2001/02 and will fully conform with provincial government policies. The program is designed to reduce the risk associated with volatility in the international price for marine diesel fuel.

HUMAN RESOURCES INITIATIVES

Employment equity—BC Ferries targeted its employment equity practices in the 2000/01 performance plan. While representation of women and aboriginal persons within the corporation's workforce has increased, representation of persons with disabilities and of visible minorities has not. The decline in total hires in 2000/01 (319 compared with 459 in 1999/2000) also meant that opportunities to make significant improvements in employment equity were limited.

FINANCIAL MEASURES MARGINS – MAINLAND SERVICES



To measure margins based on revenue types:

operating margins (toll revenues minus operating expenses)

gross catering margins (catering revenue minus cost of goods sold)

– Operating margins continue to decline. Despite a tariff increase in February, toll revenues are lower in the current year, reflecting lower average vehicle fares and increased Commuter Pass and Travel Assistance Pass (TAPS) usage. The reduction in toll revenues was offset, to some extent, by growth in catering.

Operating expenses rose by 6.5% from the previous year due to fuel price increases and budgeted increases in repairs and maintenance offset by reduced salaries and wages.

– Catering revenues increased through the implementation of White Spot onboard the Spirit vessels, targeted improvements to the Spirit buffets, improved menu signage, annual fleet-wide price increase, improved gift shop merchandising and increased retail display allowances.

Youth employment—Over the course of the year, BC Ferries participated in high school career days and agency-sponsored general career fairs. While fewer new employees were recruited overall, young people (ages 18–24) accounted for 30.1 per cent of those hires and rehires, as compared with 29.2 per cent in the previous year.

TARIFF EQUITY REVIEW

The financial framework approved by government in March 2000 assumed that BC Ferries would continue to manage its costs of operation and overall revenues to break even each year, while maintaining a rational and equitable tariff structure. The tariff was the subject of a broad-based public consultation process that ran from February to December 2000 and that identified a variety of inequities needing correction, as well as mechanisms to correct those inequities. The process resulted in a new distance-based tariff.

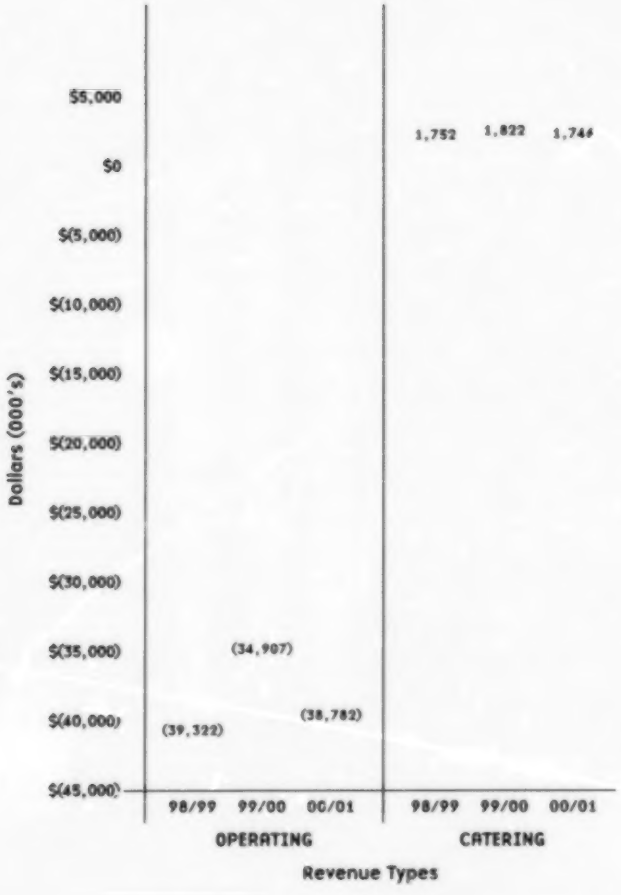
Implementation of the new tariff began on February 15, 2001. Under the new model, some routes experienced increases, some remained unchanged and some decreased in price. In order to avoid severe impacts, implementation on several routes will be spread over periods of up to five years.

One of the objectives of the 2001 adjustment was to generate an additional 3.8 per cent in fare revenue, consistent with cost-of-living increases since the last tariff revision in November 1997. Further work on the tariff structure will be undertaken before implementation of the next tariff revision, which is currently planned for 2002/03.

PARTNERSHIPS

BC Ferries developed and expanded a number of partnerships with travel industry organizations in 2000/01. The primary objectives were growth of the overall market base and enhancement of British Columbia's image as a priority tourism destination.

FINANCIAL MEASURES MARGINS – INTER-ISLAND SERVICES



To measure margins based on revenue types:

operating margins (toll revenues minus operating expenses)

gross catering margins (catering revenue minus cost of goods sold)

– Operating margins declined significantly due to lower revenues and higher fuel prices, increased maintenance budgets and extraordinary maintenance and repair costs. Toll revenues are lower in the current year, due to a decline in passenger traffic, and increased Commuter Pass and Travel Assistance Pass (TAPS) usage.

– Despite a higher per passenger spend amount, catering gross margins declined slightly due to lower passenger traffic.

The creation of a Eurail-style FlexiPass generated a number of opportunities to stimulate ferry travel, including new sail-and-stay programs with Coast Hotels and Best Western Hotels, and drive-and-sail programs with Budget Rent-A-Car and National Car Rental. Other versions of the FlexiPass will be developed in 2001/02 to cover specific routes and vehicle types (e.g., recreational vehicles) in response to requests from destination marketing organizations. It is estimated that BC Ferries will generate an additional $200,000 from these initiatives.

NORTHERN ROUTES

Shoulder season promotions launched with hotel partners and Tourism BC expanded the traditionally soft May, June and September travel periods. Continued growth occurred with the Totem Circle Rail and Sail package with BC Rail, and Rocky Mountain Railtours was added in 2000/01.

Passenger facility refurbishment on Queen of the North was undertaken during the year, with the vessel re-entering service in April 2001. Enhancements to food service areas and passenger lounges and the introduction of a reserved seating area will serve to bolster tourism activity in the North and improve vessel revenues.

New programs for 2001/02 will include partnerships with Clipper Vacations and Pacific Coastal Airlines.

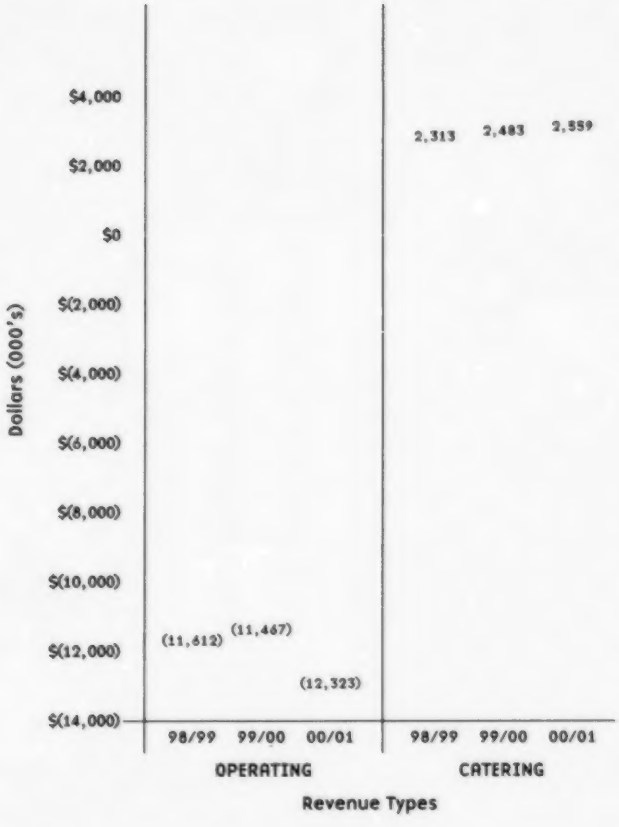
ASSET MANAGEMENT AND REPLACEMENT

Extensive efforts were made to streamline maintenance management and refit practices. This work is intended to reduce occurrences of unscheduled breakdowns, which affect the quality of service and are extremely costly. These efforts are more fully described in Improving Financial Performance, above.

FLEET SEWAGE PROJECT

Sewage treatment upgrades were installed on Howe Sound Queen and Queen of Saanich in 2000/01. Both vessels are now fitted with state-of-the-art sewage treatment systems developed by Hydroxyl, a British Columbia–based company. A five-year program will see upgrades to 17 vessels and the fitting of new systems on an additional 14 vessels.

FINANCIAL MEASURES MARGINS – NORTHERN SERVICES



To measure margins based on revenue types:

operating margins (toll revenues minus operating expenses)

gross catering margins (catering revenue minus cost of goods sold)

– Toll revenues are lower in the current year, due to a slight decline in passenger traffic, lower average vehicle fare (due to greater numbers of lower fare vehicles), and increased Travel Assistance Pass (TAPS) usage.

Operating expenses increased as a result of higher fuel prices and increased budgets for maintenance costs, offset by a reduction in salaries and wages.

– Catering margins increased through improved gift shop merchandising, a reduction in food cost of sales, and increased passenger traffic on routes 10 and 40.

WORKSAFE 2000 AND OTHER SAFETY INITIATIVES

The Workers' Compensation Board Worksafe program, developed in conjunction with BC Ferries, was aimed at identifying areas where improvements in safety are possible and setting targets for those improvements. The Worksafe program in 2000/01 focused on:

- co-ordination of work among various units, both internal and contractor, including the review of work being planned and debriefings after projects are completed
- Confined Space Entry—accessing spaces not normally occupied and potentially dangerous
- updating of Asbestos Contingency Programs Training through the Training Department, asbestos inspectors and the Occupational Safety and Health Department.

In addition to the Worksafe efforts, a joint union-management safety initiative was undertaken in January 2001 to respond to three specific challenges:

- the structure of safety committees throughout the organization
- training for safety committee participants
- tracking and reporting of employee accidents.

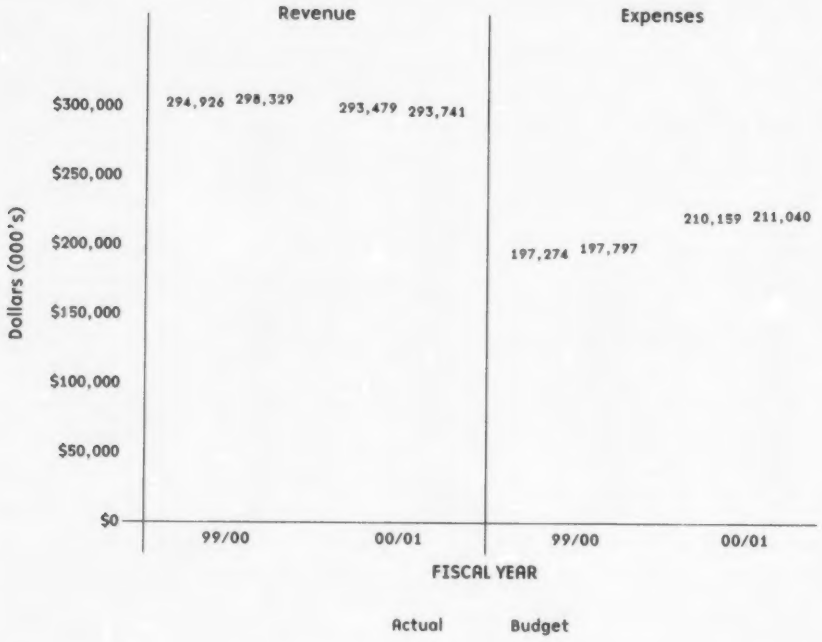
Another initiative was undertaken to address the specific issue of car-deck air quality. These initiatives are specifically designed to improve the safety of the workplace for BC Ferries employees.

EMERGENCY PLANNING EXERCISES

The west coast of Canada is an active earthquake zone, and BC Ferries recognizes the challenge of maintaining its operations in emergency conditions. The corporation must be prepared to restore to normal operation its own facilities and operations, and provide strategic transportation services to coastal areas under emergency conditions.

Emergency preparedness efforts in 2000/01 included practising helicopter transfers from one of the major vessels and "table top" exercises with provincial emergency measures and public safety (fire, police and ambulance) organizations.

FINANCIAL MEASURES BUDGET VARIANCE – MAINLAND SERVICES



To measure the management's success in effectively budgeting revenue and expenditures, and traffic.

– Overall, revenues declined 0.1% from budget. This reflected a reduction in toll revenues, primarily as a result of timing differences in implementation of the tariff increase offset by significant increases in catering revenues.

– Overall, expenditures remained favourable to budget. Unfavourable variances in fuel, as a result of fuel price increases, and repairs and maintenance, as a result of higher than expected refit activity, were offset by savings in salaries and wages resulting from reduced crewing levels through management's efforts to match crewing size to anticipated traffic.

TECHNOLOGY

BC Ferries continues to experience a steady growth in demand for reservations on the Strait of Georgia services. Reservations have been available since 1997 through a telephone "interactive voice response" system, and an Internet-based system was made available in May 2000. Customer response has been very positive and the system is addressing the needs of a significant volume of users.

BC Ferries completed a major review of its reservation services in January 2001. As a result of the review, the corporation has developed improvements in customer access and processing, such as increased reservable space allocations at peak periods and easier redeeming of reservations at the ticket booth.

SUPPORTING EMPLOYEES

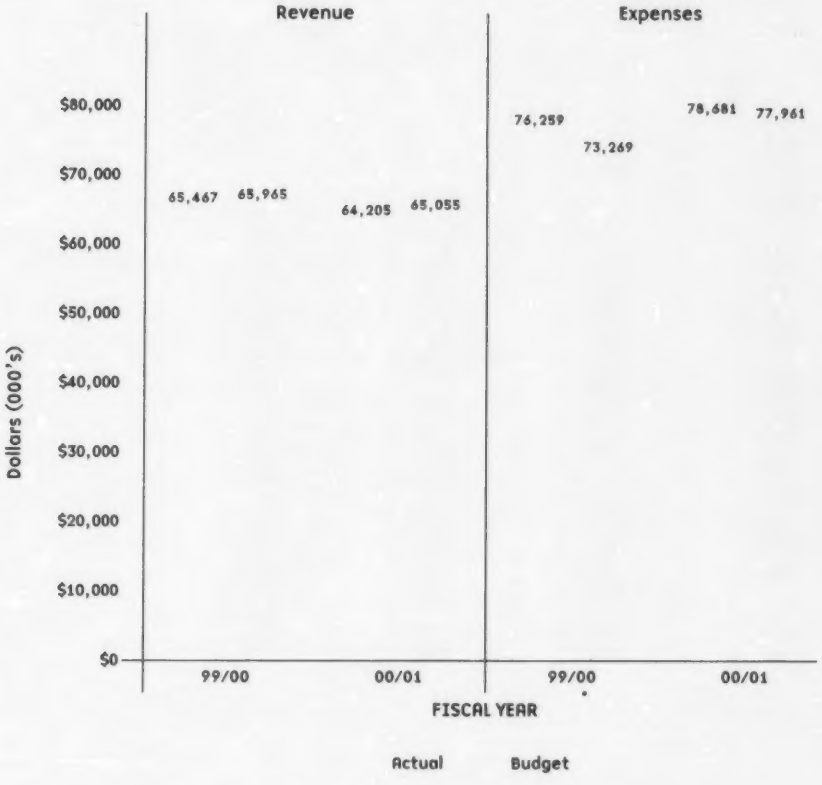
CARES (Customers Appreciate Really Exceptional Service)—A CARES program, directed at improving the customer orientation of front-line employees, was initiated at Duke Point, following on a successful initiative at Tsawwassen in previous years.

Recruiting—BC Ferries has identified the need to introduce a greater emphasis on customer service into its recruiting criteria. A number of new tools were therefore produced to assist local hiring panels in recruiting candidates with higher levels of customer focus. A qualitative assessment of the recruitment process has provided information that will support the continued development of this initiative in the coming year.

Collective bargaining—BC Ferries successfully concluded a collective agreement in 2000. The previous agreement had expired in October 1998; the current agreement runs for five years (from November 1998 to October 2003). The contract provides for salary increases across the first four years of zero per cent, zero per cent, two per cent and two per cent, and a cost-of-living increase in the final year. The labour stability afforded by this long-term contract offers the opportunity to improve the working relationship between management and the union.

FINANCIAL MEASURES

BUDGET VARIANCE – INTER-ISLAND SERVICES



To measure the management's success in effectively budgeting revenue and expenditures, and traffic.

Toll revenues were below budget, primarily as a result of timing differences in implementation of the tariff increase and lower than anticipated passenger traffic.

Expenditures were unfavourable to budget, primarily due to emergency repair and maintenance costs. Despite higher fuel prices, fuel expense had a favourable variance due to lower than anticipated consumption.

MARKET RESEARCH

BC Ferries' assessed its market research needs during the development of the strategic plan, and developed a multi-year research plan as a result. In 2000/01, research was undertaken on:

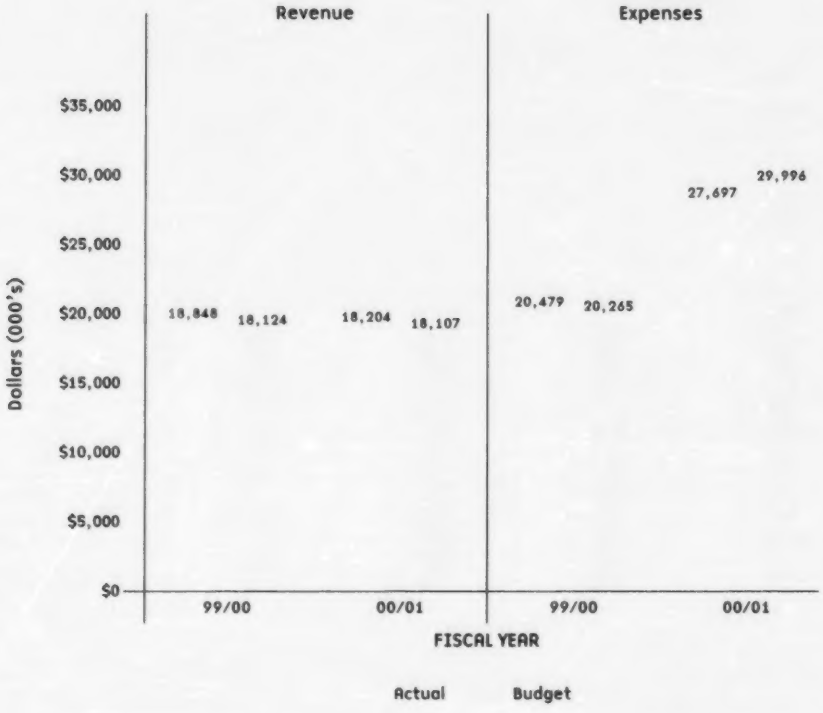
- foot passenger travel on the Strait of Georgia services
- customer profile on the northern services and some inter-island routes
- public perceptions of the reservations services on the Strait of Georgia, to provide input into the corporation's discussion paper on the development of those services
- usage and attitude, associated with work on the customer relationship management portion of the strategic planning effort.

PUBLIC CONSULTATION

Since 1997, BC Ferries has engaged in public consultation with 12 ferry-dependent communities through ferry advisory committees. The goal of these committees, which involve local residents and BC Ferries staff, is to share information on the day-to-day operations of specific routes. In addition to the local ferry advisory committees, the Coastal Council to BC Ferries provides a second level of consultation, advising BC Ferries on the views and concerns of ferry-dependent communities in discussions about interdependent (non-local) service issues, such as funding and tariff levels.

In 2000/01, BC Ferries had an independent review conducted of its public consultation activities and processes. The three-member review team recommended a number of improvements and changes, which will be implemented in 2001/02. Improvements will include a greater emphasis on consultation with such interest-based groups as the British Columbia Trucking Association and tourism associations. To date, regional public consultation has confirmed the importance of a dialogue with user groups about the challenge of balancing key (and often competing) factors, such as ferry-dependent community goals and values, fiscal responsibility to the taxpayers of British Columbia, and the service needs of BC Ferries' customers.

FINANCIAL MEASURES BUDGET VARIANCE – NORTHERN SERVICES



To measure the management's success in effectively budgeting revenue and expenditures, and traffic.

Revenues were slightly higher than budget due to favourable passenger and vehicle traffic offsetting a delay in implementing the tariff increase. This trend is expected to continue due to aggressive marketing and partnership initiatives.

Expenditures were favourable to budget, primarily due to lower than budgeted repair and maintenance costs (lower refit costs). Despite higher fuel prices, fuel expense had a favourable variance due to lower than anticipated consumption.

BC Ferries is committed to a public consultation program that involves ferry-dependent communities and its customers in the planning and operations of its service. The public consultation program is being changed to clearly align it with the corporation's new direction in strategic and business planning.

The Mill Bay–Brentwood service is an example of BC Ferries' public consultation. In 1999/2000, the corporation undertook condition assessments of many of its assets in order to determine their suitability for continued service and the level of repair or extraordinary maintenance that would be required to assure continued service. Since the Mill Bay–Brentwood service has a readily accessible all-weather highway alternative, BC Ferries also undertook a public consultation process to determine the future of the route. The process resulted in a January 2001 decision to retain the service for the next 10 years. Repairs to the 50-year-old ramp and tower structures as well as upgrades to the 44-year-old vessel will be completed in July 2001. In addition, BC Ferries and local stakeholders have established a joint task force to develop and implement a marketing plan for the Mill Bay–Brentwood route, to improve the visibility and usage of the service.

IMPROVING FACILITIES

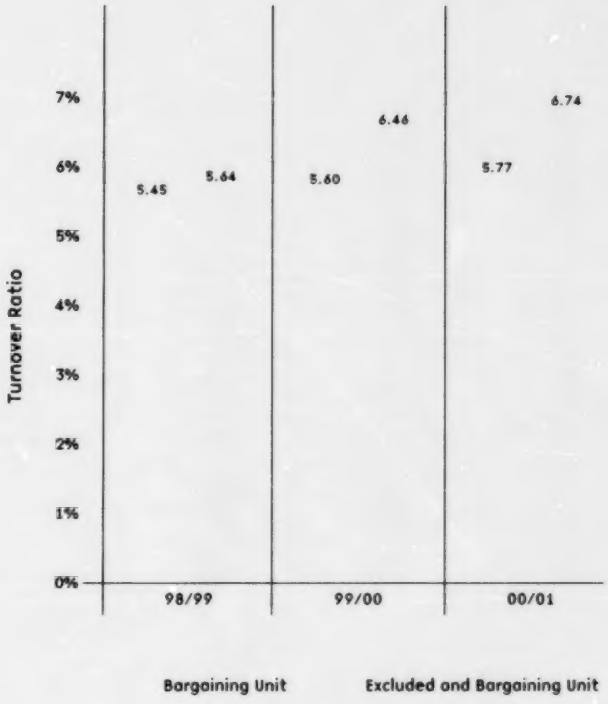
The catering strategy continues to respond to customer demand for improved quality and value. BC Ferries entered into a long-term partnership agreement with White Spot Restaurants, based on a 60 per cent increase in burger sales on the Spirit-class vessels during a pilot project. The program will be expanded from the Spirit-class vessels (serving Swartz Bay–Tsawwassen) to Queen of Saanich (operating on the same route) and to two vessels operating between Horseshoe Bay and Departure Bay.

Improvements to menu content and display resulted in the introduction of new menu signage and tactical marketing material on 11 vessels. Food sales improved three per cent over the previous year.

In addition to the completion of passenger facility upgrades on Queen of the North, work is underway on Queen of Coquitlam, which will serve as a standard for major-route passenger amenity improvements.

HUMAN RESOURCE MEASURES

RATE OF TURNOVER (ANNUAL MEASURE)



To identify turnover trends. This measure is intended to track and monitor the stability of the corporation's workforce.

This measure is calculated as the percentage of total terminations of regular employees in the year per average number of regular positions. There are three categories of terminations:

Retirements

Voluntary (leave to return to school, resign for other employment, etc.)

Involuntary (terminated by BC Ferries, illness, death)

Retirements have, since 1986, comprised over half of all regular terminations. Over the past two years, however, that proportion has been dropping due to the passing of a demographic "bubble" in the corporation's workforce that coincided with expansion of the fleet in the 1960s. In the past year there was a slight increase in turnover rate. These were broken out as follows:

38% of terminations were due to retirement

27% were voluntary (while detailed exit data is not collected, many of the voluntary terminations were due to increased opportunities available in a more competitive labour market particularly in the area of excluded employees)

35% were involuntary (only 25% of these were terminations by the corporation, with the remainder being primarily health-related).

MANAGEMENT DISCUSSION

THE 2000/01 FISCAL YEAR WAS THE FIRST YEAR OF OPERATIONS UNDER the new fiscal framework announced by the government of British Columbia in March 2000. At that time the government removed $1.076 billion of the corporation's debt, enacted legislation to dedicate 1.25 cents of the motor fuel tax to the corporation to support coastal ferry services as part of the financial restructuring of the corporation, and announced its decision to sell the three PacifiCat fast ferries. Subsequently, the Board of Directors transferred funds from the shareholder's contributed surplus to cover the accumulated deficit.

The 2000/01 financial results also reflect a substantially reduced operation of the two PacifiCats owned by the corporation, as well as the settlement of the collective agreement with the British Columbia Ferry and Marine Workers Union in 2000.

Revenues

Toll revenues increased marginally from $292.4 million to $292.8 million, primarily as a result of slightly increased traffic.

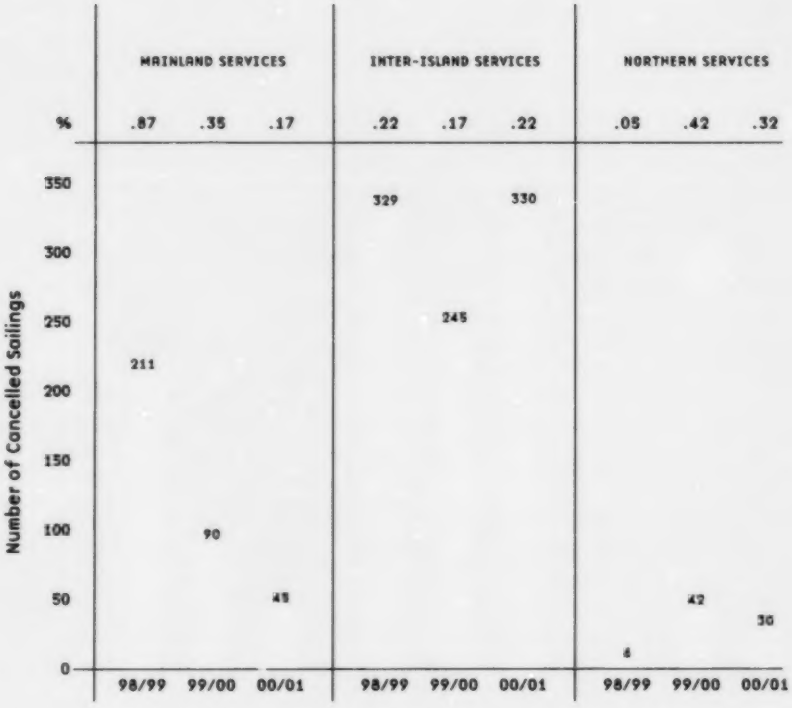
Revenues from catering, gift shop and vending activities increased by 4.9 per cent to $57.8 million. This $2.7 million increase resulted primarily from an increase in food sales as a result of increased per-passenger spending and the continued success of branded programs.

Other revenues from parking and miscellaneous sources total $10.8 million, compared with $8.4 million from the previous fiscal year.

The federal contract provided revenues of $22.4 million for the fiscal year. These funds flow to BC Ferries under a service contract for the provision of ferry services on the coast of British Columbia. The annual payment increases with the Vancouver Consumer Price Index.

As mentioned above, the provincial government restructured its subsidy, which is now based on an allocation of 1.25 cents per litre of the provincial motor fuel tax. This provided $72.5 million in 2000/01, up from the $64.9 million in the previous year, when the motor fuel tax allocation was 1.0 cents per litre for the first six months and 1.25 cents per litre in the final six months.

CUSTOMER SERVICES MEASURES CANCELLED SAILINGS



To measure the number of cancelled sailings.This measures the number of times during the reporting period that a scheduled sailing was cancelled, expressed as a percentage of the total number of sailings.

The number of cancelled sailings declined in Mainland and Northern Services from the prior year. The improved performance in Mainland Services is mainly due to fewer weather-related cancellations and mechanical problems. Virtually all cancellations in Northern Services are due to weather.

Cancelled sailings for Inter-Island Services were higher than the previous breakdown year primarily due to extended breakdown periods for the Quadra Queen II and Queen of Nanaimo.

Operating expenses

Costs for salaries, wages and benefits decreased slightly, by $0.1 million. This overall decrease resulted from several positive and negative factors. There were cost increases attributable to the settlement of the collective agreement in October 2000 and a change in accounting policy to provide for costs associated with post-employment benefits as earned. However, these increases were offset by $6.9 million in superannuation rebates received from the British Columbia Pension Corporation, and savings arising from the full-year savings that resulted from the restructuring of administrative resources that occurred in mid-1999.

Fuel costs increased by $10.9 million, or 25.5 per cent, to $53.5 million, as a result of an average fuel price increase of 30 per cent. This substantial price increase was mitigated by less-than-budgeted fuel usage, reflecting the limited operations of the PacifiCats and other fuel-saving initiatives.

Other costs dropped by $7.8 million or 22.5 per cent. Savings of $2.5 million result from streamlined administrative processes. The remaining $5.3 million reduction reflects a loss on disposal of Queen of Victoria in the prior (comparison) year.

Queen of Esquimalt: Victoria 1963
129.92m • 9,304 Gross Tons
376 Cars/1,360 Passengers

Bowen Queen: Victoria 1965
84.96 m • 1,475 Gross Tons
70 Cars/394 Passengers

Queen of Burnaby: Victoria 1964
129.97m • 4,938 Gross Tons
192 Cars/1,315 Passengers

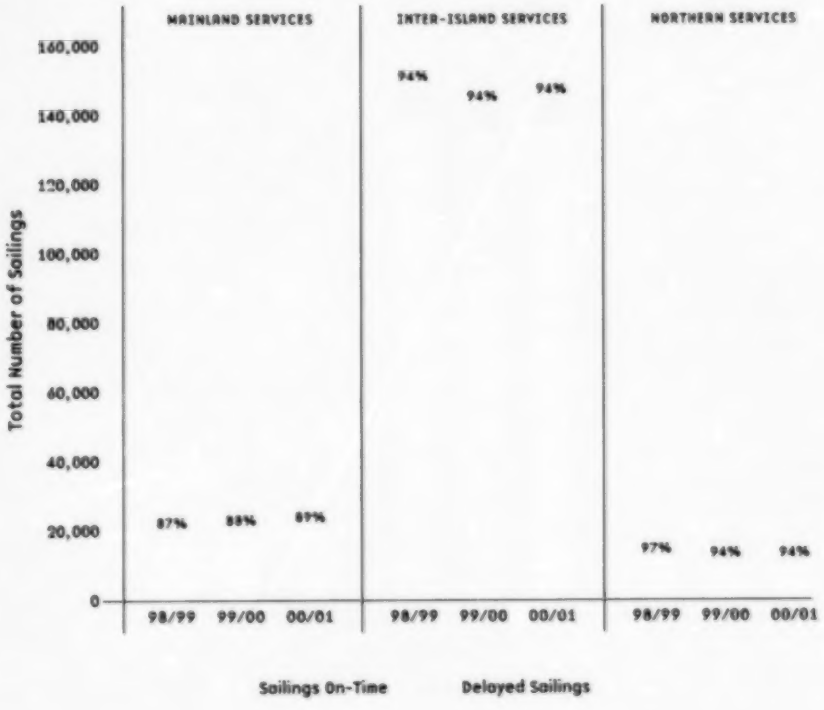
Howe Sound Queen: Quebec 1964
73.46m • 858 Gross Tons
70 Cars/330 Passengers

Queen of Vancouver: Vancouver 1962
129.92m • 9,357 Gross Tons
338 Cars/1,360 Passengers

Queen of Saanich: Victoria 1965
129.92m • 9,302 Gross Tons
338 Cars/1,369 Passengers

CUSTOMER SERVICES MEASURES

ON-TIME SAILING PERFORMANCE



To measure the number of sailings departing within 20 minutes of schedule. This measures the number of times during the reporting period that a departure was made within 20 minutes of scheduled departure, expressed as a percentage of the total number of sailings.

This performance measure remained basically unchanged from previous years. The slight improvement is a result of fewer weather-related delays than in prior years.

Net financing expenses

With the government's removal of $1.076 billion of the corporation's debt in March 2000, BC Ferries began 2000/01 with a long-term debt of $0.3 million, which was eliminated over the course of the year. As a result, net financing moved from an expense of $53.1 million in 1999/2000 to a surplus of $0.3 million in 2000/01, as interest earned in short-term cash deposits exceeded interest expense on debt.

Amortization

Amortization charges declined from $60.2 million to $50 million. This 17 per cent reduction reflects the government's decision to sell the PacifiCats and the resulting transfer of these vessels from operating assets, which were being amortized, to inventory held for resale. The reduction also reflects lower-than-anticipated capital assets moving into service in the year, as well as adjustments to the corporation's recorded asset base resulting from the implementation of the maintenance management system.

Queen of the North: Germany 1969
124.99m • 8,806 Gross Tons
157 Cars/800 Passengers

Queen of Cowichan: Victoria 1976
139.29m • 6,551 Gross Tons
362 Cars/1,466 Passengers

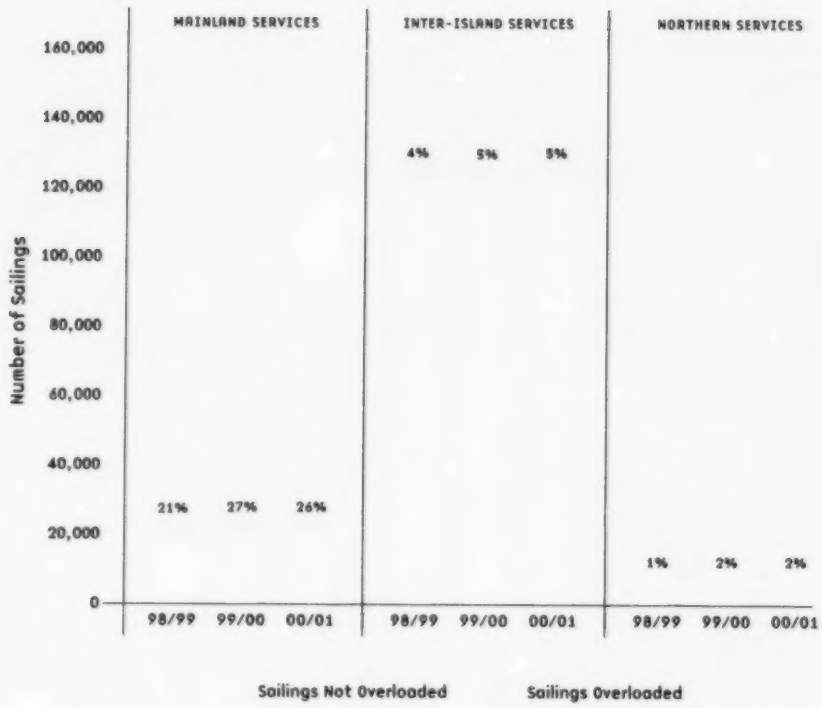
Queen of New Westminster:
Victoria 1964 • 139.96m • 8,706 Gross Tons
286 Cars/1,341 Passengers

Queen of Chilliwack: Norway 1978
114.58m • 5,618 Gross Tons
115 Cars/389 Passengers

Queen of Prince Rupert: Victoria 1964
101.15 m • 5,844 Gross Tons
80 Cars/504 Passengers

Powell River Queen: Victoria 1965
84.96 m • 1,484 Gross Tons
70 Cars/394 Passengers

CUSTOMER SERVICES MEASURES OVERLOAD SAILINGS



To measure the Corporation's success in matching customer demands with scheduled service (i.e., anticipating load requirements and making maximum use of load space) .This measures the number of times during the period that a departure was made where there were vehicles or passengers that remained unloaded at departure, and full capacity had already been achieved. This is expressed as a percentage of the total number of departures.

Overloaded sailing percentages remained virtually constant due to capacity adjustments to match traffic where discretionary sailings were available.

The difference in the rates between operating regions is a reflection of ship size and capacity in relation to the flow of traffic.

CORPORATE GOVERNANCE

THE BRITISH COLUMBIA FERRY CORPORATION IS ESTABLISHED UNDER the Ferry Corporation Act of the Province of British Columbia. A Board of Directors established under the act governs the corporation, and the act dictates the authority and responsibility of the directors to "manage the affairs of the corporation or supervise the management of those affairs." The board delegates to the President and Chief Executive Officer responsibility for the day-to-day leadership and management of the corporation.

In addition to the obligations and authorities defined by the legislation, the board's basic legal duties are imposed on directors by common law. Directors have a fiduciary duty to the corporation to carry out the duties of their office honestly and in good faith in the best interests of the corporation and with the care, diligence and skill of a reasonably prudent person. Directors have specific statutory duties and obligations under other provincial and federal legislation related to employment, environmental protection, financial reporting and taxation.

In supervising the conduct of the business, the board, through the President and Chief Executive Officer, sets the standards of conduct for the corporation and ensures the safety of its operations. The board operates by delegating to management certain of its authorities, including spending authorities, and by reserving certain powers to itself. The board retains the responsibility for managing its own affairs, including the responsibility for reviewing the skills and experience of its members and implementing a process for assessing the effectiveness of board governance practices.

The board exercises responsibility for:

- appointment and evaluation of the President and Chief Executive Officer
- review of human resource strategies
- annual approval of the corporation's strategic plans, annual operating and capital budgets, and major new financial or capital project proposals
- monitoring of the corporation's progress on the objectives set in the corporate strategic plan and the operating and capital plans, including revising the direction of those plans through management in light of changing circumstances

identifying the principal risks of the corporation's business and taking all reasonable steps to ensure the implementation of appropriate systems to manage those risks

monitoring through management compliance with all significant policies and procedures

ensuring that the corporation has in place a policy to enable management and the board to communicate effectively with the government, stakeholders and the public generally.

Catamaran Ferries International (CFI) was established in 1996 as a wholly owned subsidiary for the purposes of constructing fast ferries for BC Ferries and developing the related technology for application in the domestic and international markets. CFI ceased operations in October 2000 following the completion of its third vessel, PacifiCat Voyager. CFI remains a legal entity and remains the owner of PacifiCat Voyager and the assembly facility in which the vessels were constructed. BC Ferries has not identified at this time any other activity or function that it would carry on through Catamaran Ferries International. The financial results of CFI for the 2000/01 fiscal year are consolidated with those of the parent company.

The Board of Directors undertook a significant review of its governance framework in 1999/2000. In 2000/01, the board performed the functions defined in the framework, and has in the process tested and evaluated the appropriateness of the measures in the framework. Significant activities of the board in 2000/01 included:

in May 2000, undertaking for the first time an extensive evaluation of a) its own operations, its relationship with management and the level of support it derives from the corporation, and b) the performance of the President and Chief Executive Officer in relation to the expectations identified

in June 2000, reviewing the functioning of the board's committees (Governance and Audit and Finance) and renewing their mandates

in June 2000, receiving presentations on project management and the International Safety Management system, as part of continuing education about the corporation's business and activities

in January 2001, completing the second cycle in the now-mandatory annual declarations under the board's conflict of interest policy (developed after a cross-government consultation process, this policy applies to directors and to executive management, and requires both annual reporting and occurrence-related reporting, where applicable)

supervising a strategic planning process that ran from early 2000, when the scope of work was identified, to March 2001

reviewing and approving capital plans, including the five-year capital plan and this year's capital budget, as well as the integration of capital planning into the overall strategic planning process

supervising the achievement by management of both a five-year collective agreement running to October 31, 2003, which was ratified in September 2000, and implementation of an excluded (non-union management) job evaluation plan and salary structure.

Mayne Queen: Victoria 1965
84.96 m • 1,475 Gross Tons
70 Cars/394 Passengers

Quinsam: Vancouver 1982
86.85m • 1,457 Gross Tons
70 Cars/394 Passengers

Queen of Victoria: Victoria 1962
129.92m • 9,369 Gross Tons
286 Cars/1,360 Passengers

Spirit of British Columbia: Victoria 1993
167.57m • 18,747 Gross Tons
470 Cars/2,100 Passengers

Albert J. Savoie: Vancouver 1961
34.82m • 256 Gross Tons
16 Cars/133 Passengers

Nimpkish: Vancouver 1973
33.93m • 266.00 Gross Tons
16 Cars/133 Passengers

Klitsa: Vancouver 1972
47.46m • 347 Gross Tons
26 Cars/146 Passengers

Quadra Queen II: Vancouver 1969
49.64m • 771 Gross Tons
30 Cars/294 Passengers

Kahloke: Vancouver 1973
54.75m • 466 Gross Tons
30 Cars/195 Passengers

Skeena Queen: Vancouver 1997
110m • 2,652 Gross Tons
100 Cars/600 Passengers

Queen of Surrey: Vancouver 1981
139.29m • 6,968 Gross Tons
362 Cars/1,466 Passengers

Queen of Alberni: Vancouver 1976
139.29m • 5,863 Gross Tons
295 Cars/1,170 Passengers

Pacificat Discovery: Vancouver 1999
122.5m • 9,022 Gross Tons
235 Cars/1,000 Passengers

Pacificat Explorer: Vancouver 1998
122.5m • 9,022 Gross Tons
235 Cars/1,000 Passengers

Queen of Coquitlam: Vancouver 1976
139.29m • 6,551 Gross Tons
362 Cars/1,466 Passengers

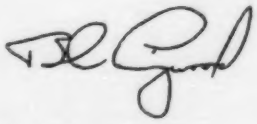
Spirit of Vancouver Island: Victoria 1994
167.57m • 18,747 Gross Tons
470 Cars/2,100 Passengers

MANAGEMENT

THE FINANCIAL STATEMENTS OF THE BRITISH COLUMBIA FERRY corporation have been prepared by management in accordance with accounting principles that are appropriate for the corporation and generally accepted in Canada. A precise determination of many assets and liabilities is dependent upon future events and consequently the preparation of periodic financial statements necessarily involves the use of management's judgment in establishing the estimates and approximations used. The accompanying consolidated financial statements have, in management's opinion, been properly prepared within the framework of the accounting policies summarized in the notes to the consolidated financial statements.

Management depends upon a system of internal controls in order to provide reasonable assurance, on a cost-effective basis, that financial information used in preparing financial statements is reliable. Internal auditors monitor the system of internal control and the corporation's external auditors also independently perform such tests of the system as they consider necessary for the purpose of expressing their opinion on the financial statements. The Audit Committee, which is composed of directors who are not employees, meets regularly with management, the internal auditors and the external auditors to satisfy itself that the corporation's system of internal controls is adequate.

Management is responsible for all of the information in this annual report. Financial information presented elsewhere in this annual report is consistent with that contained in the financial statements.



Bob Lingwood
PRESIDENT AND CHIEF EXECUTIVE OFFICER

Robert P. Clarke, CGA
VICE PRESIDENT
FINANCE AND CORPORATE SERVICES

AUDITORS'

To the Lieutenant-Governor in Council, Province of British Columbia

We have audited the consolidated balance sheet of British Columbia Ferry Corporation as at March 31, 2001 and the consolidated statements of operations, retained earnings and cash flows for the year then ended. These financial statements are the responsibility of the corporation's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the corporation as at March 31, 2001 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

KPMG LLP

KPMG LLP
Chartered Accountants
Victoria, Canada

May 4, 2001

CONSOLIDATED BALANCE SHEET
AS AT MARCH 31, 2001

Current Assets (Note 2)	$ 43,710	$ 41,067
Capital Assets (Note 3)	655,938	652,887
Total Assets	$ 699,648	$ 693,954
Current Liabilities (Note 4)	$ 92,593	$ 95,351
Deferred Employee Obligations (Note 5)	16,704	6,902
Long-Term Debt (Note 6)	–	318
Obligations Under Capital Leases (Note 7)	18,616	21,291
Total Liabilities	127,913	123,862
Share Capital (Note 8)	6,851	6,851
Contributed Surplus (Note 9)	554,170	563,241
Retained Earnings	10,714	–
Total Shareholder's Equity	571,735	570,092
Total Liabilities and Shareholder's Equity	$ 699,648	$ 693,954

Commitments (Note 3)
Contingent Liabilities (Note 16)

See accompanying notes to consolidated financial statements.

On behalf of the board:

Michael Francis
CHAIR

Ron Moss
DIRECTOR

CONSOLIDATED STATEMENT OF OPERATIONS
YEAR ENDED MARCH 31, 2001

Tolls	$ 292,806	$ 292,355
Catering and other income	68,689	63,814
Federal operating contract (Note 10)	22,438	22,150
	383,933	378,319
Salaries, wages and benefits	227,081	227,193
Fuel	53,453	42,577
Repairs and maintenance	34,575	31,840
Other (Note 11)	26,836	34,616
Materials and supplies	23,375	23,380
Cost of catering goods sold	21,915	20,725
Insurance, taxes and utilities	8,786	8,753
	396,021	389,084
	(12,088)	(10,765)
Net financing (Note 12)	312	(53,094)
Amortization	(50,029)	(60,233)
Provision for write-down of high speed ferries (Note 13)	–	(240,000)
	(61,805)	(364,092)
Motor fuel tax subsidy (Note 14)	72,519	64,913
	$ 10,714	$ (299,179)

See accompanying notes to consolidated financial statements.

CONSOLIDATED STATEMENT OF RETAINED EARNINGS

YEAR ENDED MARCH 31, 2001

	$ –	$ (463,529)
Adjustment to opening balance for employee future benefits (Note 5)	(9,071)	–
Net income (loss) for the year	10,714	(299,179)
Transfer from contributed surplus (Note 9)	9,071	762,708
	$ 10,714	$ –

See accompanying notes to consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

YEAR ENDED MARCH 31, 2001

Net income (loss) for the year	$ 10,714	$ (299,179)
Amortization and other non-cash charges:		
Write-down of high speed ferries	–	240,000
Amortization	50,029	60,233
Other non-cash charges	3,348	3
Net change in non-cash working capital	1,130	(23,982)
	65,221	(22,925)
Proceeds from debt financing	–	145,151
Long-term debt repayment	(318)	(4,347)
Capital lease payments	(2,528)	(2,323)
	(2,846)	138,481
Capital asset additions	(56,604)	(114,610)
Capital asset disposals	1,456	20
	(55,148)	(114,590)
	7,227	966
	993	27
	$ 8,220	$ 993

See accompanying notes to consolidated financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
YEAR ENDED MARCH 31, 2001

(tabular amounts expressed in thousands)

The corporation was incorporated under the Ferry Corporation Act on June 30, 1976, and commenced operations on January 1, 1977, after acquiring the assets and assuming the operations of the B.C. Ferry Authority. The Minister of Finance holds the shares of the corporation as representative of Her Majesty the Queen in right of the Province of British Columbia.

As required in Section 8(7) of the Ferry Corporation Act, the financial statements of the corporation are prepared in accordance with Canadian generally accepted accounting principles. Significant accounting policies adopted in the preparation of these financial statements are as follows:

Basis of Consolidation

The consolidated financial statements include the accounts of the corporation and its wholly owned subsidiary, Catamaran Ferries International Inc. (CFI). All material inter-company accounts and transactions have been eliminated on consolidation.

Inventories

Inventories, which consist of materials and supplies, catering stores and fuel, are valued at the lower of weighted-average cost and current replacement cost.

Capital Assets

The costs of major replacements, additions, extensions and improvements, including direct overhead and financing costs, are capitalized in the accounts. The costs of maintenance, repairs, refit and minor renewals or replacements are expensed as incurred.

Contributions from the Province towards the acquisition of capital assets have been deducted from the related capital assets with any amortization calculated on the net amount.

Certain ships, berths, buildings and equipment were transferred from the Province in prior years. These assets were recorded at cost or estimated amortized replacement value at the dates of acquisition.

Amortization of Capital Assets

Capital assets, including assets recorded under capital leases, are amortized using the straight-line method based upon the useful lives of the assets as determined by the corporation.

Asset Class	Estimated Useful Life
Ship hulls	20 to 40 years
Ship propulsion and utility systems	20 years
Marine structures	20 to 40 years
Buildings	20 to 40 years
Equipment and other	3 to 20 years

Motor Fuel Tax Subsidy

The proceeds from the ongoing dedication of taxes collected under the Motor Fuel Tax Act are recorded in income as an operating subsidy.

(tabular amounts expressed in thousands)

Contributed Surplus

Contributed surplus represents the difference between the recorded value of certain assets received from the Province of British Columbia in prior years and their cost to the corporation, plus the amount of debt transferred to the Province in 1999/00 (Note 9). The carrying amount was reduced as at March 31, 2000 by the elimination of the accumulated deficit of the corporation.

Employee Future Benefits

The corporation and its employees contribute to the Public Service Pension Plan in accordance with the Public Sector Pension Plans Act, S.B.C. 1999 c44. The Pension Corporation of the Province of British Columbia administers the Plan, including the payment of retirement and post-employment benefits on behalf of employers and employees to whom the Act applies. The Plan is a multi-employer defined benefit pension plan. The financial position of the Plan is described in the financial statements of the Plan included in the Public Accounts of the Province. Under joint trusteeship, which became effective January 1, 2001, the risk and reward associated with the Plan's unfunded liability or surplus is shared between the employers and the plan members and will be reflected in their future contributions. The most recent actuarial evaluation has determined that the Plan is in a surplus position. All employee future benefits funded through the Plan are accounted for prospectively (March 31, 1999).

The corporation provides additional retirement and post-employment benefits, such as retirement allowances and health care plans, to eligible employees. Effective April 1, 2000, the corporation adopted the new recommendation of the Canadian Institute of Chartered Accountants (CICA) related to employee future benefits on a retroactive basis without restating the financial statements of prior periods. The new recommendations require that all related costs, based on the terms of the plan, be recognized on an accrual basis during the periods the plan participants provide the services (see Note 5). Previously, the cost of providing certain of these benefits was expensed when paid.

Measurement Uncertainty

The preparation of financial statements in conformity with Canadian general accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the period. Actual results could differ from these estimates.

	2001	2000
Cash	$ 8,220	$ 993
Accounts receivable and prepaid expenses	18,641	23,987
Inventories	16,849	16,087
	$ 43,710	$ 41,067

Accounts receivable and prepaid expenses include an amount of $1.9 million (2000 – $1.3 million) relating to the corporation's surplus position in the British Columbia Long Term Disability Plan.

(tabular amounts expressed in thousands)

	2001			2000
	Cost	Accumulated Amortization	Net Book Value	Net Book Value
Ships owned	$ 559,506	$ 304,420	$ 255,086	$ 266,072
Ships under capital lease	48,482	27,218	21,264	22,227
Berths, buildings and equipment	526,710	308,372	218,338	230,943
Land	25,406	-	25,406	24,580
Assets held for resale and construction in progress	135,844	-	135,844	109,065
	$1,295,948	$ 640,010	$ 655,938	$ 652,887

The three aluminum catamaran ferries are held for resale and included in assets held for resale and construction in progress. In addition to the construction in progress referenced above, contractual commitments for capital assets under construction at March 31, 2001 totalled $31.4 million (2000 - $15.9 million).

	2001	2000
Accounts payable and accrued liabilities	$ 79,131	$ 79,777
Deferred revenue	10,774	13,046
Current portion of long-term obligations	2,688	2,528
	$ 92,593	$ 95,351

	2001	2000
Accrued sick leave liability	$ 1,903	$ 2,478
Workers' compensation claims liability	5,087	4,424
Employee future benefits	9,714	-
	$ 16,704	$ 6,902

The value of the accrued sick leave liability was based upon an actuarial valuation performed by Leong & Associates Actuaries and Consultants Inc. as at March 31, 2001.

The value of the workers' compensation claims liability was based upon an actuarial valuation performed by The AON Consulting Group Ltd. as at March 31, 2001.

Last year the corporation adopted the new recommendations of the CICA relating to employee future benefits on a retroactive basis without restating the financial statements of prior periods. The change in accounting policy has resulted in a charge against retained earnings of $9.1 million representing the cumulative liability estimated as at March 31, 2000, and an incremental charge against current income of $0.6 million.

(tabular amounts expressed in thousands)

During 1999/2000, the corporation transferred $1.08 billion in debt to the Province. Remaining debt ($14.8 million) and associated sinking funds ($14.4 million) were transferred to the Province in a defeasance arrangement. The corporation paid $2.0 million to augment the sinking funds to completely offset all future cash flows associated with the debt. This cost will be amortized over the remaining term of the debt.

The corporation has obligations under capital leases for vehicles and the M.V. Queen of Surrey. Total future minimum lease payments are as follows for fiscal years ending in:

2002	$ 4,486
2003	4,486
2004	4,486
2005	4,486
2006	4,486
2007 and subsequent	5,653
	28,083
Less: Interest at average implicit rates of 8.7%	6,715
Net present value of lease obligations	21,368
Less: Current portion	2,688
Deferred charges	64
	$ 18,616

The Province of British Columbia guarantees the obligation under capital lease for the M.V. Queen of Surrey.

The corporation also has an obligation under capital lease for the M.V. Queen of Oak Bay. The $31.1 million (2000 - $34.0 million) obligation is fully offset by a debenture from the Province of British Columbia. The debenture and the capital lease mature in December 2006.

	2001	2000
Authorized: 1,000,000 shares without par value with a maximum consideration of $100,000,000		
Issued: 68,512 shares	$ 6,851	$ 6,851

(tabular amounts expressed in thousands)

	2001	2000
Balance at beginning of year	$ 563,241	$ 250,401
Transfer of debt to the Province	–	1,075,548
Transfer to eliminate accumulated deficit	–	(762,708)
Transfer for employee future benefits	(9,071)	–
Balance at end of year	$ 554,170	$ 563,241

In fiscal 1999/2000, the Province announced a financial restructuring plan to ensure the long-term sustainability of the corporation. Following this announcement, legislation was introduced to permit the relinquishment of up to $1.08 billion in debt and to confirm the replacement of the annual provincial operating grant with an operating subsidy provided through the ongoing dedication of 1.25 cents-per-litre from taxes collected under the Motor Fuel Tax Act. As part of its financial restructuring, the corporation also received authorization from its shareholder, the Province of British Columbia, to eliminate the accumulated deficit of $762.7 million at March 31, 2000, through a transfer of contributed surplus. The contributed surplus reflects the impact of this restructuring plan. In the current year, the transfer of $9.1 million from contributed surplus reflects the adjustment to retained earnings for the retroactive portion of employee future benefits as described in note 5.

The corporation received revenue from the Government of Canada of $22.4 million (2000 - $22.2 million) pursuant to a contract for the provision of ferry and coastal freight and passenger services in the waters of British Columbia.

	2001	2000
Travel and other	$ 10,100	$ 11,219
Advertising and professional fees	10,349	11,032
Communications and computer	5,037	4,461
Loss on disposal of assets	1,350	7,904
	$ 26,836	$ 34,616

(tabular amounts expressed in thousands)

The corporation earned income and incurred financing costs as follows:

	2001	2000
Short-term loans	$ 45	$ 20,790
Long-term debt	394	41,655
Capital leases	1,972	2,184
	2,411	64,629
Capitalized as cost of construction	(828)	(7,876)
Interest earned on short-term funds	(1,470)	(176)
Interest earned on sinking funds	(425)	(3,483)
Net financing (income) expense	$ (312)	$ 53,094

In March 2000, the corporation and its shareholder, the Province of British Columbia, decided to sell the three aluminum catamaran ferries on the open market. Canadian generally accepted accounting principles require that a write-down should be recorded in the financial period in which the need for the write-down is identified. During fiscal 1999/2000, a write-down of costs was provided for. The write-down of $240.0 million applies to all three vessels.

In June 2000, an international sales consultancy firm was engaged to manage the disposition of these assets and to provide an estimate of their value. The carrying value of these assets is in the range provided. However, the ultimate proceeds of disposal may differ from the carrying value.

A sale of these, or any other, vessels owned by the corporation is subject to approval of the Lieutenant Governor in Council pursuant to section 6(c) of the Ferry Corporation Act.

In fiscal 2000/01, the corporation received an operating subsidy from the Province of British Columbia of $72.5 million (2000 - $64.9 million) from taxes collected under the Motor Fuel Tax Act.

The corporation utilizes Crown land for terminals and highway access without the payment of rent or property taxes. In 1991, the corporation initiated a program of payments to municipalities in lieu of property taxes for terminals located within municipal boundaries.

The corporation engages in transactions with other provincial government agencies, departments and Crown corporations, notably British Columbia Hydro and Power Authority, British Columbia Buildings Corporation and Information Technology Services Division of the Ministry of Finance and Corporate Relations, on normal commercial terms.

The Minister of Finance and Corporate Relations, as the corporation's fiscal agent, arranges financing at the corporation's request. The corporation paid fees totaling $0.03 million (2000 - $2.4 million) in the year for these fiscal agent services.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

YEAR ENDED MARCH 31, 2001

(tabular amounts expressed in thousands)

The corporation, in conducting its usual business activities, is involved in various legal proceedings and litigation, the outcome of which is indeterminable. It is the corporation's policy to carry adequate insurance to minimize the financial risk associated with such matters. Management is of the opinion that the aggregate net liability, if any, of these proceedings and litigation would not be significant to the corporation. Any additional future costs or recoveries, which differ from the accrued amounts, will be recorded as expenses or revenues as determined.

Certain comparative figures have been reclassified to conform to the presentation adopted for the current year.

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